

AR48

**ST. MAURICE
CAPITAL
CORPORATION
LIMITED**

1972

ANNUAL REPORT

name changed to Commerce Capital Corp Ltd 1973

CONSOLIDATED BALANCE SHEET

	(Unaudited) As at June 30	
	1972	1971
		(Restated)
Assets		
Cash and deposit receipts.....	\$ 2,299,346	\$2,695,330
Marketable securities.....	25,596,001	736,759
Other securities.....	363,557	358,185
Mortgages receivable.....	48,598,349	5,333,131
Investment in properties, including deferred development costs.....	1,657,751	—
Fixed assets, including land, buildings, leasehold improvements and equip- ment, less accumulated deprecia- tion of \$200,423 (1971—\$10,723).....	417,527	10,547
Accounts receivable, prepaid expenses and other assets.....	1,368,029	154,215
Excess of cost of shares of a subsidiary company over net book value of assets.....	79,772	—
	<u>\$80,380,332</u>	<u>\$9,288,167</u>

Liabilities

Guaranteed trust accounts.....	64,433,542	—
Bank indebtedness, secured.....	2,149,500	1,952,000
Accounts payable and accrued liabilities.....	670,669	104,300
Income taxes — current.....	250,680	2,105
— deferred.....	33,453	22,755
Mortgages payable.....	167,986	—
Series B bonds.....	5,486,150	4,006,050
Deferred income.....	2,031,858	42,522
Minority interest.....	2,049,464	304,143
	<u>77,273,302</u>	<u>6,433,875</u>

Shareholders' Equity**Capital stock**

Authorized 10,000,000 common shares without nominal or par value		
Issued 5,697,480 shares		
(1971—5,397,480 shares).....	2,712,769	2,502,769
Retained earnings	394,261	351,523
	<u>3,107,030</u>	<u>2,854,292</u>
	<u>\$80,380,332</u>	<u>\$9,288,167</u>

Interim Report to Shareholders
For Six Months Ended
June 30, 1972

To the Shareholders

This report presents the unaudited consolidated financial statements of the Company for the first six months of 1972 with comparative figures for the same period in 1971. They include the results of the operations of Farmers & Merchants Trust Co. Ltd. from March 1, 1972, the date this subsidiary was acquired.

Earnings before extraordinary items amounted to \$114,608 or 2.0¢ per share compared to \$4,765 or 0.1¢ per share for the corresponding period in 1971.

The acquisition of Farmers & Merchants Trust Co. Ltd., reported to shareholders in the 1971 Annual Report, resulted in consolidated assets increasing from \$9.3 million at June 30, 1971 to \$80.4 million at June 30, 1972.

Farmers & Merchants Trust Co. Ltd.

Earnings before extraordinary items were 59% higher than the same period a year ago. Assets increased to \$70.9 million. A new branch which is planned for Victoria, B.C. would bring the total number of branches in Canada to nine. A rights issue, underwritten by St. Maurice Capital, will be completed by mid-September, expanding the equity base of the trust company by \$1.2 million to almost \$5 million.

General Mortgage Corporation of Canada

Earnings were 17% higher than the corresponding period in 1971. In July, General Mortgage completed the placement of another bond issue, this one for \$2,000,000.

St. Maurice Properties Limited

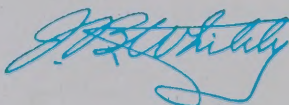
The rezoning of the 141 acre Glendale site in Winnipeg for a shopping centre and residential complex is continuing.

Construction of the Kenora shopping centre, originally scheduled to begin this summer, is now expected to commence within the next few months. The delay is due to the additional time required to conclude negotiations for the relocation of certain existing tenants on the site.

Options have been secured on three additional shopping centre sites in western Canada.

The outlook for St. Maurice Capital appears favourable at the present time and earnings for the second half of the year are expected to continue at a significantly higher level than last year.

Yours very truly,



President

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	(Unaudited)	
	Six months ended June 30 1972	1971
		(Restated)
Income		
Interest	\$3,095,532	\$ 302,597
Dividends	48,050	21,915
Other income	548,725	9,944
	<u>3,692,307</u>	<u>334,456</u>
Expenses		
Interest	2,408,429	190,881
Administrative and general expenses ..	693,698	113,414
	<u>3,102,127</u>	<u>304,295</u>
Earnings before Income Taxes, Minority Interest and Extraordinary Items ..	590,180	30,161
Income taxes	264,031	11,285
	<u>326,149</u>	<u>18,876</u>
Minority interest	211,541	14,111
Earnings before Extraordinary Items ..	114,608	4,765
Extraordinary Items		
Recovery of income taxes	27,458	—
Gain on investments	1,605	346,758
Net Earnings	143,671	351,523
Retained earnings at beginning of period	250,590	—
Retained Earnings at End of Period ..	<u>\$ 394,261</u>	<u>\$ 351,523</u>
Earnings per Share		
Before extraordinary items	\$.020	\$.001
Net earnings	\$.025	\$.065

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Source of Funds		
Net earnings	\$ 143,671	\$ 351,523
Items not involving funds—net	116,664	(354,182)
	260,335	(2,659)
Issue of common shares	210,000	2,502,769
Decrease in cash and deposit receipts ..	4,395,388	—
Increase in bank indebtedness	364,000	—
Increase in guaranteed trust accounts ..	2,748,480	—
Proceeds from sale of securities, less purchases	—	810,544
Net decrease in investment in properties including deferred development costs	152,570	—
Net increase in Series B bonds	—	2,529,700
Net change in other assets and liabilities	198,139	—
	<u>\$8,328,912</u>	<u>\$5,840,354</u>
Application of Funds		
Acquisition of net assets of St. Maurice Gas Inc.	—	811,599
Acquisition of shares of subsidiary companies	1,842,149	1,933,675
Purchases of securities less proceeds on sales	531,717	—
Reduction of bank indebtedness	—	1,139,500
Increase in cash and deposit receipts ..	—	1,729,582
Net increase in mortgages receivable ..	4,059,618	176,533
Net reduction in Series B bonds	4,100	—
Purchase of fixed assets	33,388	4,630
Net change in accounts receivable and payable	1,857,940	38,827
Net change in other assets and liabilities	—	6,008
	<u>\$8,328,912</u>	<u>\$5,840,354</u>

August 22, 1972.

HIGHLIGHTS

	1972	1971
Total Income	\$8,341,520	\$ 775,815
Earnings before Extraordinary Items	357,027	43,653
Per Share	\$0.062	\$0.008
Net Earnings	400,789	250,590
Per Share	\$0.070	\$0.046
Total Assets	\$91,900,936	\$10,498,163
Shareholders' Equity	5,688,888	2,753,359
Shares Outstanding at December 31	8,497,480	5,397,480
Average Number of Shares Outstanding	5,764,146	5,397,480
Approximate Number of Shareholders	2,000	1,700

SUBSIDIARY COMPANIES

Farmers & Merchants Trust Co. Ltd.

209 8th Ave. S.W., Calgary, Alberta

J. B. WHITEY	Chairman of the Board
D. A. ROSS, C.A.	President
R. B. LOVE, Q.C.	Vice-President
L. W. DerBACH	General Manager and Secretary-Treasurer

General Mortgage Corporation of Canada

8 King Street E., Toronto, Ontario

J. B. WHITEY	Chairman of the Board
D. A. ROSS, C.A.	President
L. HENDERSON	Vice-President and Secretary
L. STIMPSON	Vice-President
C. J. CANN	Treasurer

St. Maurice Properties Limited

3 Lombard Place, Winnipeg, Manitoba

J. B. WHITEY	Chairman of the Board
T. L. CHARNE, Q.C.	President
E. D. BATEMAN, C.A.	Secretary-Treasurer

DIRECTORS

T. L. CHARNE, Q.C., Winnipeg,
President,
St. Maurice Properties Limited

M. GAASENBEEK, Toronto,
Director, Corporate Finance,
Doherty McCuaig Limited

***D. C. HANNAFORD**, Montreal,
President,
Mead & Co. Limited

R. B. LOVE, Q.C., Calgary,
Partner,
Macleod, Dixon

***P. E. MARTIN**, Montreal,
Executive

D. A. ROSS, C.A., Calgary,
President,
Farmers & Merchants Trust Co. Ltd.

***W. TERON**, Ottawa,
President,
William Teron & Associates

J. A. TIMMINS, Montreal,
Vice-President,
Aviation Services Division,
Rockwell International of Canada Limited

R. H. E. WALKER, Q.C., Montreal,
Partner,
Martineau, Walker, Allison,
Beaulieu, Phelan & MacKell

***J. B. WHITELY**, Montreal,
President of the Company

OFFICERS

W. TERON,
Chairman of the Board

J. B. WHITELY,
President and Chief Executive Officer

T. L. CHARNE, Q.C.,
Vice-President

D. A. ROSS, C.A.,
Vice-President

D. M. THOMPSON,
Vice-President

E. D. BATEMAN, C.A.,
Secretary-Treasurer

Auditors

RIDDELL, STEAD & CO.,
Montreal

Transfer Agent and Registrar

CANADA PERMANENT TRUST COMPANY,
Montreal, Toronto, Winnipeg, Regina, Calgary and
Vancouver

Stock Listings

THE TORONTO STOCK EXCHANGE
CANADIAN STOCK EXCHANGE

Head Office

One Place Ville Marie, Montreal 113, Canada

* Member of the Executive Committee

PRESIDENT'S REPORT

1972 was a year of progress and growth for St. Maurice. During the first quarter we completed our most important corporate acquisition to date, Farmers & Merchants Trust Co. Ltd., and in December we arranged our first public equity financing. At year end we found ourselves in a very strong financial position, ready to take advantage of further opportunities to expand in our areas of interest—financial services and real estate.

Presented in this report are the consolidated financial statements of the Company for the year ended December 31, 1972, together with comparative figures for 1971. They include the results of the operations of Farmers & Merchants from March 1, 1972, the date this subsidiary was acquired.

Earnings before extraordinary items amounted to \$357,027 or 6.2 cents per share compared to \$43,653 or 0.8 cents per share in 1971. Net earnings, after taking extraordinary items into account, were \$400,789 or 7.0 cents per share compared to \$250,590 or 4.6 cents per share the previous year. Per share earnings are calculated on the basis of the average number of shares outstanding during the year.

Total assets at year end were \$91,900,936 in comparison to \$10,498,163 at the end of 1971.

The acquisition of Farmers & Merchants consisted of the purchase from certain major shareholders of 405,000 common shares (50.1%) and 15,862 7% preferred shares with a par value of \$10.00 each for a total consideration of

\$1,785,401 payable by cash and the issuance of 300,000 common shares of St. Maurice Capital. Subsequently, the preferred shares were converted into 52,873 common shares. In September, we completed the underwriting of a common share rights issue by Farmers & Merchants under which the trust company's shareholders were offered the right to take up one new common share at \$3.00 per share for each two common shares then owned. Approximately \$1,200,000 was raised by Farmers & Merchants under this issue. At year end we held a 51.9% interest in the trust company. In January 1973 we increased this interest to 63.9% through the purchase of an additional 155,000 shares from certain shareholders for a total consideration of \$1,262,500 payable by cash and the issuance of 550,000 common shares of St. Maurice Capital.

Farmers & Merchants has provided an excellent base for St. Maurice Capital in the financial services field. The results of its operations since acquisition have been most encouraging and we look forward to it playing an expanded role in our overall activities.

By the third quarter of 1972 it became apparent that if we were going to continue our expansion program we must increase our equity base and strengthen our working capital position. We were also anxious to broaden further our list of shareholders in order to provide greater marketability for our shares. After reviewing various possible methods of financing we decided the most suitable would be a new issue of common shares underwritten and distributed by a group of Canadian investment dealers. The issue, which was completed in December, consisted of 2,800,000 common shares and was widely distributed. As a result, approximately seven hundred new shareholders were added to our list, bringing the current number of shareholders to about twenty-four hundred. The net proceeds of this issue, after all expenses, amounted to approximately \$2,350,000. \$1,100,000 was used to repay bank indebtedness and the balance of \$1,250,000 was added to our working capital. One of the corollary

benefits of the public financing was the increased awareness of the activities and objectives of St. Maurice Capital which it brought to the financial community.

General Mortgage Corporation of Canada continued the growth pattern which began in 1971. We are very pleased with the progress this subsidiary has made since we acquired control in mid-1970 and are confident it will continue to make increasing contributions to the consolidated earnings of St. Maurice Capital in the future. During 1972 we increased our interest in General Mortgage from 83.9% to 86.6% through purchases of additional shares in the open market.

St. Maurice Properties Limited, in which we own a 90% interest, continued its activities in shopping centre development. Options were taken on several additional sites and plans were advanced for the commencement of construction this year of two or three centres. Although no earnings contribution has been made yet by St. Maurice Properties, we expect it will make significant contributions within a year or two, as soon as some of the projects now being developed come on stream.

In May of 1973 we announced the formation of a merchant banking division to be headed by Mr. David M. Thompson, who was appointed a Vice-President of the Company. Mr. Thompson has had many years experience in both the investment banking and real estate industries and is highly qualified in the areas of government, corporate and real estate financing. The merchant banking division will offer a broad range of financial services to clients across Canada including private placements, merger and acquisition facilities, financial and corporate planning services and all types of real estate financing. St. Maurice intends to form an association with a European merchant banking group in order to offer an international capability to clients in this country.

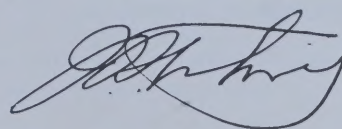
One of our directors, Dr. J. M. Gillies, retired from the Board of Directors during the year, following his election as a Member of Parliament. We would like to express our appreciation to Dr. Gillies for the services he rendered the Company during his tenure. We welcome as a new member of the Board Mr. M. Gaasenbeek, director of corporate finance of the investment firm which underwrote our common share issue.

In January, 1973, Mr. D. A. Ross was appointed a Vice-President of the Company and President of General Mortgage. He continues as President of Farmers & Merchants.

A growing company such as ours cannot attain its objectives without the dedicated efforts of the members of its management and staff. We want to thank each one of them, not only in the parent company but in each of the subsidiary companies as well, for the particular contribution they have made to the success of St. Maurice during 1972.

We are optimistic concerning the future prospects of the Company. Several possible acquisitions are under review and we anticipate that some of them will be completed during the coming year. The operating results of our subsidiary companies have been most gratifying and we expect that earnings in 1973 will again show impressive gains.

ON BEHALF OF THE BOARD



J. B. Whitely
President

Montreal, May 14, 1973

REVIEW OF OPERATIONS

FARMERS & MERCHANTS TRUST CO. LTD.

Earnings of Farmers & Merchants continued to grow at an impressive rate. Earnings before extraordinary items amounted to \$729,180 compared to \$522,727 the previous year—an increase of 40%. The company initiated a policy of paying quarterly dividends on its common shares, the first quarterly dividend of \$0.03 being paid in September. In March, 1973, it was increased to \$0.04.

The company's equity base was strengthened significantly by the issue of an additional 404,382 common shares by way of a rights issue to shareholders. At year end shareholders' equity was \$5,245,318, up 71% from \$3,070,610 at the end of 1971. In November the shares were listed on the Toronto and Montreal Stock Exchanges.

Deposits were up by almost 20% to \$69,842,863. Late in 1972 a new branch was opened in Victoria, British Columbia and in April of this year a second branch was opened in Calgary. This brings the total number of branches to ten, with additional new branches planned for the balance of this year. An office will be opened soon in Toronto for the purpose of mortgage lending and mortgage banking.

On the investment side, mortgages outstanding were up \$5,997,284, or 16%, to \$42,957,941. Holdings of marketable securities increased by \$2,998,583 to \$26,048,434.

During the year the company strengthened its management team through the addition of certain senior personnel. It established a head office division for the coordination and development of the estates, trusts and agency portion of the business and undertook new initiatives in the areas of mortgage banking and real estate brokerage.

GENERAL MORTGAGE CORPORATION OF CANADA

During the year, General Mortgage experienced a continuation in the expansion of assets and earnings which began in 1971. Net income amounted to \$93,197 compared to \$83,312 in 1971—an increase of 12%. It should be pointed out, however, that the increase would have been much greater (70%) had they not adopted a new, more conservative method of accounting for service fees earned, as explained in the notes to the financial statements.

Once again, the main activity of the company was the operation of Mortgage Fund B (the conventional mortgage fund). Considerable growth took place in the Fund as mortgages went up by 102%, from \$4,331,337 to \$8,745,599. This growth was financed during the year by a \$2,000,000 series B bond issue in July, bank borrowings of \$1,170,000 and utilisation of bank deposit receipts of \$1,200,000. A further \$3,000,000 series B bond issue was completed in February 1973 and another issue of the same amount will be completed in June. These new financings repaid the bank loans and place Mortgage Fund B in funds for further expansion this year.

In Mortgage Fund A (the N.H.A. mortgage fund), mortgages declined by \$167,465 to \$1,629,140, the proceeds going to reduce bank indebtedness.

In the General Fund, assets increased by \$234,350. Additional investments were made in mortgages and preferred shares. Shareholders' equity at year end amounted to \$1,723,079.

ST. MAURICE PROPERTIES LIMITED

St. Maurice Properties is concluding final negotiations to commence construction of two or three shopping centres in 1973.

The first shopping centre will be constructed on a ten-acre site in the downtown area of Kenora, Ontario. This enclosed mall centre will comprise 140,000 square feet and will provide parking for 580 automobiles. The department store will be occupied by F.W. Woolworth Co. Limited. Construction was delayed to enable the area of the site to be increased from eight to ten acres and to conclude negotiations for the relocation of certain existing tenants. Construction is now expected to commence this summer for completion in 1974.

The second shopping centre will be built in Kamloops, British Columbia. St. Maurice Properties has entered into a joint venture agreement, in which it holds a 50% interest, to develop this enclosed mall centre on an eighteen-acre site leased for a period of seventy-five years. The centre will have an area of 210,000 square feet and provide parking for 1,120 automobiles. The department store tenant will be F.W. Woolworth Co. Limited who will operate a Woolco department store. Construction is scheduled to begin this summer for completion next year.

In mid-1972, St. Maurice Properties acquired William Teron & Associates' interest in the one hundred and forty-one-acre Glendale site on the south side of Portage Avenue in the western part of Winnipeg. Subsequently, St. Maurice Properties joined a consortium with Trizec Equities Limited and The Bay to develop a regional shopping centre on either the Glendale site or on a forty-acre site (the Unicity Mall site) situated on the north side of Portage Avenue across from the Glendale site. The two-level,

enclosed mall centre will consist of approximately 600,000 square feet of space and have three department stores. If rezoning is approved for either site reasonably soon, construction should commence this fall for completion in 1975.

With respect to the 171,000 square foot enclosed mall shopping centre planned for Penticton, British Columbia, rezoning of the eighteen-acre site has not, to date, been approved.

THE PARENT COMPANY

Considerable attention was given during the year to matters relating to the purchase of controlling interest in Farmers & Merchants and to the completion of the public share financing. Certain management services continued to be provided to the subsidiary companies, particularly with respect to financing and planning.

Several potential acquisitions were analyzed, a number of which are still under review. We have been looking at some new types of activity, including interim mortgage financing, fund management, leasing, factoring and insurance brokerage and are examining the possibility of acquisitions in the United States.

After several months of planning, we recently formed a merchant banking division of the parent company, as mentioned in the President's Report. We believe this is a highly significant development in the affairs of the Company and expect that the new division will be a most active and profitable part of our business. Although its prime purpose is to provide financial services to outside clients, its personnel and expertise will also be available to our subsidiary companies.

ST. MAURICE CAPITAL CORPORATION LIMITED



**ST. MAURICE
CAPITAL
CORPORATION
LIMITED**

1972

Consolidated Financial Statements

ST. MAURICE CAPITAL CORPORATION LIMITED
Incorporated under the Canada Corporations Act

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1972

	1972	1971
INCOME		
Interest	\$6,663,011	\$ 681,816
Income from all other sources	<u>1,678,509</u>	<u>93,999</u>
	<u>8,341,520</u>	<u>775,815</u>
EXPENSES		
Interest and amortization of financing expenses	5,223,586	435,860
Other administrative and general expenses	<u>1,726,137</u>	<u>246,855</u>
	<u>6,949,723</u>	<u>682,715</u>
EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS	<u>1,391,797</u>	<u>93,100</u>
INCOME TAXES		
Current	472,019	(22,015)
Deferred	<u>139,549</u>	<u>51,015</u>
	<u>611,568</u>	<u>29,000</u>
	780,229	64,100
MINORITY INTEREST	<u>423,202</u>	<u>20,447</u>
EARNINGS BEFORE EXTRAORDINARY ITEMS	357,027	43,653
EXTRAORDINARY ITEMS (Note 7)	<u>43,762</u>	<u>206,937</u>
NET EARNINGS	<u>\$ 400,789</u>	<u>\$ 250,590</u>
EARNINGS PER SHARE (Note 8)		
Before extraordinary items	\$ 0.062	\$ 0.008
Net earnings	\$ 0.070	\$ 0.046

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1972

BALANCE AT BEGINNING OF YEAR	\$ 250,590	\$ —
Net earnings	<u>400,789</u>	<u>250,590</u>
BALANCE AT END OF YEAR	<u>\$ 651,379</u>	<u>\$ 250,590</u>

CONSOLIDATED BALANCE SHEET

as at December 31, 1972

ASSETS

	1972	1971
Cash, deposit receipts and short-term notes	\$ 7,745,501	\$ 2,496,377
Marketable securities (Note 2)	26,849,489	931,104
Other securities, at cost less provision for loss	251,484	363,557
Mortgages, agreements and secured loans	53,565,922	6,422,372
Accounts receivable, prepaid expenses and other assets	978,301	178,059
Investment in properties (Note 3)	1,850,586	63,197
Land, buildings, equipment and leasehold improvements, at cost less accumulated depreciation of \$211,316 (1971—\$14,390)	514,196	43,497
Excess of cost of shares over net book value of assets of a subsidiary company (Note 1)	145,457	—
	<u>\$91,900,936</u>	<u>\$10,498,163</u>

LIABILITIES

Guaranteed trust accounts		
Savings deposits	\$10,720,271	\$ —
Guaranteed investment certificates	59,122,592	—
	69,842,863	—
Bank indebtedness, secured	2,841,500	1,785,500
Accounts payable and accrued liabilities	826,172	122,333
Income taxes	396,173	—
Mortgages	256,118	—
Series B bonds (Note 4)	7,354,650	5,490,250
Deferred income (Note 5)	1,701,317	—
Deferred income taxes	213,317	73,770
Minority interest	2,779,938	272,951
	<u>86,212,048</u>	<u>7,744,804</u>

SHAREHOLDERS' EQUITY

Capital Stock (Note 6)		
Authorized		
10,000,000 common shares without nominal or par value		
Issued		
8,497,480 shares (1971—5,397,480 shares)	5,037,509	2,502,769
Retained Earnings	651,379	250,590
	<u>5,688,888</u>	<u>2,753,359</u>
	<u>\$91,900,936</u>	<u>\$10,498,163</u>

SIGNED ON BEHALF OF THE BOARD:

J. B. WHITELY, Director—W. TERON, Director

ST. MAURICE CAPITAL CORPORATION LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1972

SOURCE OF FUNDS

	1972	1971
Net earnings	\$ 400,789	\$ 43,653
Items not involving funds—net	613,754	34,244
	<u>1,014,543</u>	<u>77,897</u>
Increase in guaranteed trust accounts	8,157,801	—
Issue of shares	2,534,740	2,502,769
Net increase in Series B bonds	1,864,400	3,905,248
Increase (decrease) in bank indebtedness	1,056,000	(1,306,000)
Net investment in subsidiaries by minority shareholders	551,241	—
Net increase in mortgages payable	86,871	—
	<u>\$15,265,596</u>	<u>\$5,179,914</u>

APPLICATION OF FUNDS

Acquisition of shares of Farmers & Merchants Trust Co. Ltd. (Note 1)	\$ 1,836,386	\$ —
Acquisition of additional shares of General Mortgage Corporation of Canada	29,871	244,087
Acquisition of M.N.S. Investments Limited	—	1,704,623
Acquisition of net assets of St. Maurice Gas Inc.	—	811,598
Net increase in mortgages receivable	9,165,503	1,243,929
Net change in accounts receivable and payable	1,157,155	(44,216)
Net increase (decrease) in marketable and other securities	1,666,896	(471,004)
Increase in cash, deposit receipts and short-term notes	991,929	1,530,629
Net purchase of fixed assets	146,265	39,272
Decrease in deferred income	72,585	—
Net increase in investment in properties	96,557	—
Net change in other assets and liabilities	102,449	120,996
	<u>\$15,265,596</u>	<u>\$5,179,914</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1972

1. Principles of Consolidation

The consolidated financial statements include the assets and liabilities of all active subsidiary companies and the results of their operations and the source and application of their funds from their respective dates of acquisition or incorporation.

During the year the company acquired a 51.9% interest in Farmers & Merchants Trust Co. Ltd. for a total consideration of \$1,836,386. Settlement was made by the payment of \$1,626,386 cash and the issuance of 300,000 common shares of the company at an effective valuation of \$0.70 per share. The excess of the cost over the net book value of assets acquired, in the amount of \$145,457, is carried on the consolidated balance sheet without amortization.

2. Marketable Securities

	1972	1971
Held by subsidiary companies—at cost . . .	\$26,792,882	\$ 698,658
Held by St. Maurice Capital Corporation Limited—at cost less provision for loss	56,607	232,446
	<u>\$26,849,489</u>	<u>\$ 931,104</u>
Quoted market value	<u>\$26,330,830</u>	<u>\$ 852,000</u>

3. Investment in Properties

	1972	1971
Rental properties—at cost	\$ 1,183,072	\$ —
Accumulated depreciation	56,292	—
	<u>1,126,780</u>	<u>—</u>
Properties held for sale — at lower of cost and appraised value	345,300	—
Property under development—at cost	120,725	—
Deferred development costs	147,381	34,980
Deposits on real estate	110,400	28,217
	<u>\$ 1,850,586</u>	<u>\$ 63,197</u>

The deposits on real estate pertain to the operations of a subsidiary company which has made offers to purchase properties and placed deposits thereon as follows:

	Deposit	Purchase Price
Manitoba property	\$50,000	\$2,450,000
Western Ontario property	20,000	275,000
	<u>\$70,000</u>	<u>\$2,725,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Both offers have been accepted and, upon the fulfillment of certain terms and conditions contained in the offers to purchase, within specified time limits, the company is obligated to take title to the properties and pay the balance of the purchase price of the Manitoba property over two years on specified dates, and the Western Ontario property on or before March 31, 1973. If the terms and conditions contained in the offers to purchase are not met within the specified time limits, the company has the right to terminate the agreements and obtain refunds of one half the deposit in the case of the Manitoba property, and the entire deposit in the case of the Western Ontario property.

As at December 31, 1971 the company had a 50% interest in a joint venture which made the offer to purchase the Manitoba property. In 1972 the joint venture was terminated and the company undertook the full commitment.

Sundry other deposits amounting to \$40,400 are for options on properties for which the company has no commitment to purchase and are not refundable.

As properties are acquired for development it is the intention of the company to allocate deferred development costs to the cost of those properties.

4. Series B Bonds

These bonds have been issued by a subsidiary company and mature as follows:

	<u>1972</u>	<u>1971</u>
1972	\$ —	\$ 256,000
1973	1,060,100	1,053,500
1974	76,000	61,000
1975	89,250	79,250
1976	4,043,500	4,040,500
1977	2,085,800	—
	<u>\$7,354,650</u>	<u>\$5,490,250</u>

5. Deferred Income

Deferred income pertains to the mortgage operations of two of the company's subsidiaries. One of the subsidiaries issues mortgages at a discount, and the other levies a service fee, both of which are deferred and taken into income over the term of the mortgages using the sum of the years' digits method.

6. Capital Stock

	<u>Number of Shares</u>	<u>Amount</u>
Balance—December 31, 1971	5,397,480	\$2,502,769
Shares issued as part payment for shares of a subsidiary company (see Note 1)	300,000	210,000
Shares issued for cash, less expenses of issue	2,800,000	2,324,740
Balance—December 31, 1972	<u>8,497,480</u>	<u>\$5,037,509</u>

Options have been granted to senior officers of the company for the purchase of a total of 175,000 common shares. The options are exercisable on a cumulative basis over periods of five years and range in price from \$0.49 per share to \$0.67 per share. No part of these options has been exercised to date.

7. Extraordinary Items

	<u>1972</u>	<u>1971</u>
Recovery of income taxes otherwise payable which were assessed in prior years . . .	\$157,883	\$ —
Gain on sale of branch operation, net of applicable income taxes	<u>98,973</u>	<u>—</u>
	256,856	—
Minority interest	<u>138,094</u>	<u>—</u>
	118,762	—
Gain (loss) on securities	<u>(75,000)</u>	<u>206,937</u>
	<u>\$ 43,762</u>	<u>\$206,937</u>

8. Earnings per Share

Earnings per share in 1972 have been calculated based on the weighted average number of shares outstanding of 5,764,146. Fully diluted earnings per share have not been shown as the dilutive effect of all outstanding share options is not material.

9. Statutory Information

	<u>1972</u>	<u>1971</u>
Remuneration of Directors and Officers		
Number of directors	11	9
Directors' remuneration	—	—
Number of officers	4	4
Officers' remuneration		
Paid by parent company	\$51,200	\$48,430
Paid by a subsidiary	\$35,438	\$18,740
Number of directors who are also officers	3	3
Depreciation	\$77,941	\$ 2,957

10. Change in Accounting

In 1972 a subsidiary company adopted the policy of deferring service fees on mortgages (see Note 5) whereas in prior years these service fees were taken into income as received. Had this policy not been adopted, net earnings would have been increased by \$42,693 and net earnings per share by \$0.007.

11. Long Term Leases

The aggregate minimum commitment in respect of rentals payable by the company and its subsidiaries, exclusive of tax, insurance and other occupancy and maintenance charges, for the five year period ended December 31, 1977 is \$538,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Subsequent Event

In January 1973 the company increased its interest in Farmers & Merchants Trust Co. Ltd. to 63.9% by the acquisition of 155,000 shares of the capital stock of that company for a total consideration of \$1,262,500. Settlement was made by the payment of \$602,500 cash and the issuance of 550,000 common shares of the company at an effective valuation of \$1.20 per share.

13. Reclassification

1971 current and deferred income taxes have been restated to reflect minor reclassifications.

AUDITORS' REPORT

To the Shareholders
St. Maurice Capital Corporation Limited

We have examined the consolidated balance sheet of St. Maurice Capital Corporation Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of St. Maurice Capital Corporation Limited and the subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of one subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting practice of a subsidiary as explained in Note 10 to the financial statements, have been applied on a basis consistent with that of the preceding year.

February 19, 1973.

RIDDELL, STEAD & CO.
Chartered Accountants

